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REPORT TO STOCKHOLDERS

YEAR ENDED DECEMBER 31, 1948



BOEING AIRPLANE COMPANY

ON THE COVER: A flight formation of Boeing B-50s.
Numbers of these famous Superforts currently are
being delivered to the United States Air Force.



BOEING AIRPLANE COMPANY



ANNUAL REPORT

To the Stockholders of Boeing Airplane Company:

The Annual Report for the year 1948 covering the operations of Boeing Airplane Company is submitted herewith.

PRODUCTION DURING 1948

Production for the year 1948 was substantially less than had been expected, because of the strike at the Seattle Division from April 22, 1948, to September 13, 1948. Steady progress was made in rebuilding the work force during the period of the strike, but deliveries were materially retarded.

Production efforts during 1948 were devoted primarily to starting or accelerating deliveries on the five new models which had been completed to the flight-test stage in 1947. These were the double-deck Stratocruiser for commercial airlines; the B-50 Superfortress, C-97 Stratofreighter and the B-47 Stratojet for the United States Air Force; and the L-15 for the Army Field Forces. The company also obtained in 1948 a production order for B-54 Superfortresses and at the year end production activities were under way on this model. The B-54 is substantially larger and more powerful than the B-50. Both bomber and reconnaissance types will be produced.

The procurement of military aircraft by The National Military Establishment was substantially greater during 1948 than in previous peacetime years. The company, having concentrated its efforts on types for which there is a definite need, received orders for various types which will be discussed in more detail later in the report. The delivery requirements under these additional orders necessitated the reactivation of the government-owned plant at Wichita, Kansas, and of a portion of the government-owned plant at Renton, Washington. Approximately fifty percent of the work under recent military contracts is being subcontracted to other companies within the industry.

PRINCIPAL PROJECTS

B-50 Superfortress

Deliveries of the new B-50 bombers, which started late in 1947, have been progressing satisfactorily. Orders were received during 1948 for two hundred fourteen B-50s and at the year end a total of two hundred seventy were on order. The B-50, which is an advanced four-engine bomber, continues to occupy an important position in our national defense program as the backbone of the Strategic Air Command. It was one of these Boeing bombers, the *Lucky Lady II*, with which the Air Force on March 2, 1949, completed the first non-stop flight around the world.

B-54 Superfortress

The B-54 bomber represents a further development of the famous B-29 - B-50 series and incorporates many new developments and improvements which will result in substantially increased capacity, speed and range. During the year 1948 an order was received for thirty B-54s, including two test airplanes. Early in 1949 an order was received for another thirteen of this type.

B-47 Stratojet

The two experimental XB-47 jet bombers were delivered in 1948. The flight tests to date indicate that this model, powered with six jet engines, is an outstanding new development. This was further indicated when one of the XB-47s established a new transcontinental speed record of three hours, forty-six minutes, from Moses Lake, Washington, to Andrews Field, Maryland, February 8, 1949.

During the year 1948 an order was received for a limited production quantity of B-47s. These are being manufactured at Wichita.

C-97 Stratofreighter

The last four of the original order for ten Model YC-97 Army cargo and troop transport airplanes were delivered during 1948. Early in 1948 an order was obtained for an additional quantity of twenty-seven C-97s and late in 1948 this quantity was increased to fifty. Stratofreighters have been in operation since November, 1944, and have es-



tablished a good service record. This airplane, which is a military cargo version of the Stratocruiser, has high capacity and offers the greatest operating economy and the best performance of any available transport. The C-97 and the B-50 are frequently referred to as teammates because of the many common component parts and assemblies, resulting in a simplification of maintenance and service operations.

Stratocruiser

A type certificate was issued by the Civil Aeronautics Administration for the Boeing Stratocruiser in September, 1948. Prior to its issuance, the first four airplanes had been subjected to a comprehensive and exacting test program on the part of both the company and the Civil Aeronautics Administration. Due primarily to delays resulting from the strike, no Stratocruisers were delivered in 1948. Deliveries did start in January, 1949, and a total of five had been delivered as of the date of this report. It is expected that the remaining fifty on order for six major domestic and foreign airlines will be delivered during the year 1949.

FIRST OF THE BOEING STRATOCRUISERS have been delivered to airline customers and soon will be in regular commercial service. The big, luxury transports offer a new standard of air travel.

The good performance characteristics of this airplane, combined with the indicated low operating cost and greatly increased passenger comfort, should result in new standards in air travel as the Stratocruisers go into regular airline service. As stated in last year's report your management believes that there will be a further market for Stratocruisers as soon as they have demonstrated their capabilities in actual service.

L-15 Scout

Two of the ten YL-15 airplanes on order at the beginning of the year were delivered in 1948 by the Wichita Division and the remaining eight were delivered early in 1949. This airplane was built to provide observation, gun spotting and liaison work for the Army Field Forces. The Scout has been favorably received by the military services, and it is hoped that a production order will be forthcoming.

B-29 and B-50 Superfortress Modifications

Early in 1948 the company, at the request of the Air Force, re-activated a portion of the government-owned plant at Wichita for modification work on B-29s and B-50s. These modifications involved principally the incorporation of air-to-air refueling equipment and other new developments which increased the effectiveness of the airplanes for certain tactical operations. A substantial number of B-29 and B-50 bombers was modified and delivered during the year 1948.

SUBCONTRACTING

During the year 1948, the company extended the policy adopted in 1947 of subcontracting various parts and assemblies to other companies within the industry. On recent contracts approximately fifty per cent of the work normally performed by the prime contractor has been so subcontracted. This policy is in conformance with the desire of the Air Force to stabilize the industry as a whole to the greatest extent practicable.



BUILT FOR ARMY FIELD FORCES, ten Boeing YL-15 Scouts (above) have been delivered. These liaison planes, serving as the "eyes" of the field forces, were designed and built by the Wichita Division.

FOR THE MODIFICATION of B-29s and B-50s, part of government-owned Plant 2 at Wichita (below) was reactivated. During the year, scores of bombers were modified there and turned back to the Air Force.





DELIVERIES OF THE BOEING B-50, (above), standard Air Force long-range bomber, continue to accelerate at the Seattle plant. A substantial number of the B-50s remained on order at the close of the year.

MORE BOEING STRATOCRUISERS (below) approach the final-assembly doors at Plant 2, Seattle. Final deliveries to the six major airline customers are expected to be completed during the year of 1949.



RESEARCH AND DEVELOPMENT

As stated frequently in previous reports, the management believes it increasingly important for an aircraft manufacturing company to carry on an aggressive and alert research and development program. The increasing size and complexity of airplanes, together with the advent of jet propulsion, electronics and supersonic speeds, necessitate intensive research and development to attain superior competitive performance and satisfactory service operations. The successful conduct of such work requires a substantial investment in modern laboratory and testing facilities as well as a large organization of skilled scientists, engineers, and technicians. At Boeing these facilities and personnel are engaged in research relating to the development of new and advanced airplanes, improving airplanes currently in production, and preliminary testing prior to flight of major functioning units within an airplane.

Much of the development work is accomplished under military contracts. At the end of 1948 three new models, including a B-54 prototype, were being developed under experimental contracts. Work was also going forward on a pilotless aircraft project, a ramjet engine project, two bomb-lift projects and a small auxiliary gas turbine engine project, all under government contracts.

FACILITIES

Expanding operations during the year 1948 necessitated the acquisition of additional facilities at both Seattle and Wichita. Approximately \$1,150,000 was expended for new machinery and equipment. Also, facility contracts were negotiated which provide for the government's making available to the company certain machinery and equipment. At Wichita the large government-owned plant was made available for use by the company and at Seattle additional area was rented, including a portion of the government-owned plant at Renton, Washington. At the year end the Seattle Division was utilizing a total area of approximately 4,200,000 square feet and the Wichita Division was utilizing a total area of approximately 2,750,000 square feet.

THE STRIKE AT THE SEATTLE DIVISION

A summary of the strike as of July 29, 1948, was included in the interim statement to stockholders covering operations for the first six months of 1948. In reporting on the operations of the company for the year 1948 it is desirable to review this important event in its entirety.

On April 22, 1948, approximately 14,800 of the hourly-paid employees went on strike. These employees were the production and factory workers of the Seattle Division and were members of Aeronautical Mechanics Local 751, an affiliate of the International Association of Machinists. At the time of the strike, the company had a contract with the above union and its International, which specified wages and working conditions, and provided that "this agreement shall be and remain in full force and effect from the 16th day of March, 1946, to the 16th day of March, 1947, and thereafter until a new agreement has been reached by the parties either through negotiation or arbitration."

The company had offered in 1947 a wage increase equivalent to ten cents per hour and, following the rejection of this offer, had offered in 1948 a wage increase of fifteen cents per hour. In connection with these wage offers, the company had requested certain changes in the seniority provisions of the contract which were completely unworkable in a peacetime operation. These provisions had been accepted by the company during the wartime years at the insistence of the union, and although they created certain difficulties during the period of large wartime production, they became so unworkable under peacetime conditions of limited quantities and numerous models that certain changes were necessary if the company was to continue in business in the Seattle area. The union was unwilling to modify these restrictive provisions in any substantial degree and, on April 20, 1948, served upon the company an ultimatum demanding an increase equivalent to thirty-five cents per hour, with no relaxation in the unworkable conditions referred to. The company refused to accede to this demand and the strike was called thirty-six hours later.

It was the opinion of the management of the company that:

- (1) the position of the union, both as to wages and a continuation of the restrictive provisions referred to, would have made it impossible for the company to continue substantial production in Seattle;
- (2) the strike was never authorized by the employees;

- (3) the strike was in violation of the contract between the union and the company, which contract contained a "no-strike" clause;
- (4) the strike was in violation of the sixty-day strike notice provision of the National Labor Relations Act, and that, by reason of this violation, the union lost its status as a collective bargaining agent, and the strikers lost their status as employees of the company.

Shortly after the strike was called the union filed charges with the National Labor Relations Board contending that the company was required to negotiate with it. Upon application to the Federal District Court by the National Labor Relations Board for an injunction to compel the company to bargain with the union, the court held that the union was engaging in an unlawful strike and had lost its status as a bargaining representative, and it therefore refused to issue the injunction. Subsequent to the court decision, a trial examiner of the National Labor Relations Board made his recommendations for a board decision, based on conclusions directly opposite to the conclusions of the court. The company took exception to these recommendations, but on November 22, 1948, the board rendered its decision and order, based on the conclusions recommended by the trial examiner, and directed that the company bargain with the union and that the strikers be reinstated with back pay for the period from five days after application thereafter made, to the date of the company's offer of reinstatement, less any earnings during this period. The company promptly filed an appeal from the board's order in the United States Court of Appeals for the District of Columbia. As of the date of this report no decision has been rendered by the Court of Appeals.

Immediately after the start of the strike the company proceeded with the task of building a new work force. As of May 17, 1948, the fifteen-cent hourly increase previously offered to the union was placed in effect by the company. A number of returning strikers and new employees petitioned for membership in the Aeronautical Workers, Warehousemen and Helpers Union, Local 451 (affiliated with the Teamsters Union, A. F. of L.), with the result that this union began competing with Local 751 for memberships. On September 13, 1948, Local 751 called off the strike and the company, with a limited number of exceptions, reinstated all of those remaining on strike who made appli-



cation as rapidly as they could be absorbed into the factory work force of approximately 8,000 which had been built up during the strike period. Reinstatements were completed early in December.

If the company's contention that the strike was illegal is upheld by the court decision, which is expected late this spring, an NLRB election will undoubtedly be held to determine which union, if any, will have bargaining rights. If Local 751's contention is upheld by the courts, the company will be required to resume negotiations with that Local. Since April 22, 1948, operations have been carried on without a contract and the company's contention that efficient shop operations were seriously impaired by the restrictive provisions of the former contract has been amply demonstrated.

EMPLOYMENT

At the end of 1948, the company's employment at Seattle and Wichita totaled approximately 30,400 as compared to 18,700 at the end of the previous year.

FLYING TRANSPACIFIC ROUTES for the Military Air Transport Service, Boeing YC-97 Stratofreighters are establishing excellent service records. The U. S. Air Force has ordered 50 more of these ships.

FINANCIAL

Result of 1948 Operations

A profit of \$1,715,908 was realized for the year after writing off \$7,200,000 to reduce the Stratocruiser work-in-process inventory to estimated proportionate sales value and after providing for income taxes, both federal and state. This compares with a loss of \$448,499 for the year 1947. Deliveries during the year were substantially below those anticipated, primarily due to the strike. This was directly reflected in reduced profits as the latter are taken up under fixed-price contracts only as deliveries are made. An amount of \$180,000 was set aside from 1948 profits by direction of the Board of Directors for distribution under the Incentive Compensation Plan for Officers and Employees (adopted by the stockholders in May, 1947).

Contracts with the government for experimental airplanes are for the most part on a cost-plus-a-fixed-fee basis. Fixed-price contracts with the government for airplanes, which constitute the bulk of the company's business, provide that after a specified number (less than 40%) of the airplanes called for under the contract are delivered, the government and the company shall review the cost of producing such airplanes and revise the price, if necessary, upward or downward as the facts may indicate. During the year 1948, substantial deliveries were made under one contract which contains such a provision but the price of the airplanes called for in the contract has not yet been reviewed. Profits have been taken up on deliveries on the assumption that an equitable revision in price, if necessary, will be made.

During the year it became apparent that a substantial loss would be realized on the Stratocruiser project due to delayed deliveries, principally arising from the strike, changes in C A A regulations requiring substantial revisions in the aircraft, and difficulties with purchased equipment. Accordingly the inventory value of this project was written down to proportionate sales price. As indicated in the statement of net earnings, it is presently expected that a further loss on this project will be realized in 1949.

Renegotiation

Further conferences were held during the year with the Army Price Adjustment Board with respect to renegotiation for the year 1945. The Board finally determined that the company and its former subsidiary, Boeing Aircraft Company, had realized excess profits in the approximate amount of \$5,000,000. An agreement covering this matter was executed early in 1949 and will result in a refund to the government after tax credits of \$1,371,057. Provision for payment of this refund has been charged to the reserve for contract adjustments and indeterminate expenses, and as reported in the statement of earnings retained for use in the business, the balance of such reserve has been transferred to that account.

The 80th Congress re-enacted a renegotiation statute applicable to contracts entered into on and after the effective date of that statute. All of the company's recent contracts are therefore subject to renegotiation. Likewise, the Vinson-Trammell Act, which was suspended during the period of the excess-profits tax, automatically became operative with respect to all contracts for airplanes entered into after 1945. The Vinson-Trammell Act provides that a report shall be made to the Internal Revenue Bureau with respect to profits realized annually from all business subject to the act and provides that the government shall recapture all profits which it determines to be in excess of 12%. Regardless of the merits of the various statutes and contract provisions, the purpose of which is to protect the government, it would seem that subjecting the contractor to renegotiation by the Renegotiation Board under the Renegotiation Statute and, in effect, to renegotiation by the Internal Revenue Bureau under the Vinson-Trammell Act, after prices under its contracts have been re-determined by the Air Force, is burdensome and unfair. These three forms of renegotiation necessarily occur at different times and with different groups, with the result that possible serious conflicts of interest may occur. It is the opinion of the management that either the Vinson-Trammell Act or the Renegotiation Statute should be repealed.

Bank Loans

Substantial bank loans totaling \$35,000,000 at December 31, 1948, were required by reason of the expanded volume of the company's business, delayed deliveries due to the strike, the increased cost of Stratocruisers, and other factors.

Application has been made to the government for advance payments under certain government contracts in order that such contracts may be self-financing. It is presently anticipated that the repayment of the bank loans will be made in full this year as the Stratocruisers are delivered.

Backlog

It is not possible to set forth accurately the dollar value of the company's unfilled orders because the government has adopted the practice of authorizing the performance of work before price negotiations have begun. As of February 28, 1949, the unfilled orders, exclusive of the unpriced contracts referred to above, totaled \$445,741,075, of which \$85,193,000 was commercial.

Boeing Aircraft of Canada Limited

Since the company could not foresee any substantial demand for aircraft manufactured by its Canadian subsidiary, steps were taken leading to liquidation. This subsidiary had assets at December 31, 1948, of approximately 675,000 Canadian dollars. These are for the most part represented by Canadian Government bonds and amounts receivable in the future from the Canadian Government representing the refundable portion of prior years' excess-profits taxes.

By order of the Board of Directors,

WILLIAM M. ALLEN

President

March 28, 1949

• BALANCE SHEET

BOEING AIRPLANE

ASSETS

CURRENT ASSETS:

Cash		\$ 17,114,859
Accounts receivable (including \$7,728,720 due from the United States)		9,668,556
Estimated amounts recoverable from the United States - For expenditures and fees on cost-plus-a-fixed-fee contracts	\$12,259,729	
For expenditures under facilities contracts	1,071,893	13,331,622
Accumulated charges under contracts with the United States, less estimated cost of deliveries -		
On price redetermination contracts	\$39,559,601	
On fixed price contracts	3,284,613	
	\$42,844,214	
Less progress payments	28,896,208	13,948,006
Accumulated charges on commercial projects, less pro rata portion of estimated loss		60,968,052
Inventories of purchased materials and parts, at the lower of average cost or market		4,285,787
Prepaid expenses		346,356
TOTAL CURRENT ASSETS		\$119,663,238

INVESTMENTS AND OTHER ASSETS:

Capital stock of Boeing Aircraft of Canada Limited, a wholly-owned subsidiary in liquidation, at cost (substantially equivalent to underlying book value in Canadian dollars)	\$ 611,297	
Deposits with mutual insurance companies	251,017	862,314

PROPERTY, PLANT, AND EQUIPMENT:

Land (\$263,734) and buildings, at cost	\$10,776,800	
Machinery, tools, and equipment, at cost	8,573,907	
	\$19,350,707	
Less allowance for accumulated depreciation and amortization	14,355,914	4,994,793
		\$125,520,345

COMPANY • DECEMBER 31, 1948

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:

Notes payable to banks	\$ 35,000,000
Accounts payable	10,358,803
Accrued pay rolls and taxes	8,033,821
Renegotiation refund for the year 1945	1,371,057
Incentive compensation for officers and employees	180,000
Federal and state taxes on income	1,704,681
Advances on commercial contracts	24,797,619
TOTAL CURRENT LIABILITIES	\$ 81,445,981

STOCKHOLDERS' INVESTMENT:

Capital stock, par value \$5 a share -	
Authorized - 1,250,000 shares	
Issued and outstanding - 1,082,454 shares	\$ 5,412,270
Additional paid-in capital (unchanged during the year)	8,142,064
Earnings retained for use in the business	30,520,030
	<u>44,074,364</u>

\$125,520,345

BOEING AIRPLANE COMPANY

STATEMENT OF NET EARNINGS

Year Ended December 31, 1948

Sales		\$126,931,453
Other income		373,208
		<u>\$127,304,661</u>
Cost of sales	\$112,995,587	
Portion of estimated total loss of \$10,500,000 required to reduce the accumulated charges on a commercial project to proportionate sales value	7,200,000	
General and administrative expenses	1,780,229	
Sales and sales promotion expenses	721,479	
Depreciation of plant and equipment	663,892	
Research expenses	440,436	
Interest expense	422,130	
Incentive compensation for officers and employees	180,000	
Federal and state taxes on income	1,185,000	125,588,753
Net earnings		<u>\$ 1,715,908</u>

Sales consist of deliveries of completed units under fixed price and price redetermination contracts, and costs considered reimbursable together with fees, to the extent not withheld, under cost-plus-a-fixed-fee contracts.

Cost of sales under fixed price contracts is computed on the basis of the estimated average cost of units of the contracts, such estimates being revised periodically so that they approach actual average cost as the contracts progress to completion. Under cost-plus-a-fixed-fee contracts, cost of sales consists of applicable expenditures made or accrued.

EARNINGS RETAINED FOR USE IN THE BUSINESS

Year Ended December 31, 1948

Balance at January 1, 1948	\$ 29,257,633
Additions:	
Net earnings for the year	1,715,908
Balance of the reserve for contract adjustments and indeterminate expenses no longer required after charge of \$1,371,057 has been made for renegotiation refund for the year 1945, net of taxes	628,943
	<u>\$ 31,602,484</u>
Cash dividend paid, \$1 a share	1,082,454
Balance at December 31, 1948	<u>\$ 30,520,030</u>

TOUCHE, NIVEN, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS

SEATTLE 1, WASH.

March 28, 1949

Board of Directors,
Boeing Airplane Company,
Seattle, Washington.

We have examined the balance sheet of Boeing Airplane Company as of December 31, 1948, and the related statements of net earnings and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of net earnings and earnings retained for use in the business present fairly the financial position of Boeing Airplane Company at December 31, 1948, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, in our opinion, the action of the Board of Directors on March 28, 1949, in setting aside from the earnings of the year 1948 a sum of \$180,000 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche, Niven, Bailey & Smart
Certified Public Accountants



STRATOCRUISER PASSENGERS (above) find the plane's high-altitude air conditioning, its spaciousness and its soundproofing offer the very best in air travel.

TYPICAL OF BOEING STRATOCRUISER comfort is the lower-deck lounge (below). Mirrors, rich fabrics and indirect lighting lend the tone of a fine club.



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WELLWOOD E. BEALL
Vice President
Engineering and Sales

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New York City

DARRAH CORBET
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Machines Co.
Seattle, Washington

FRED P. LAUDAN
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C. L. EGTVEDT
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J. E. SCHAEFER
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General Manager,
Wichita Division

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New York

DIETRICH SCHMITZ
President, Washington Mutual
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Seattle, Washington

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E. C. WELLS	<i>Vice President—Engineering</i>
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F. B. COLLINS	<i>Vice President—Sales Manager</i>
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General Counsel

HOLMAN, MICKELWAIT, MARION, PRINCE & BLACK

General Auditors

TOUCHE, NIVEN, BAILEY & SMART

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

